

The following is an unofficial English translation of the Reports for the 13<sup>th</sup> Fiscal Year of Jupiter Telecommunications Co., Ltd. The Company provides this translation for your reference and convenience only and without warranty as to its accuracy or otherwise.

(Attachment to Notice of Convocation of the 13<sup>th</sup> Ordinary Meeting of Shareholders)

**Reports for the 13<sup>th</sup> Fiscal Year**  
January 1, 2006, through December 31, 2006

To All Shareholders

We wish to express our sincere thanks for the exceptional favor you have always shown us.

We have the pleasure of reporting to you our general condition of operations for the 13<sup>th</sup> Fiscal Year (January 1, 2006, through December 31, 2006) as set forth below.

We sincerely appreciate your understanding and support.

March 2007  
Tomoyuki Moriizumi  
President & CEO

# Business Report

January 1, 2006 to December 31, 2006

## I. Current State of the J:COM Group

### (1) Business Progress and Results

#### ●Business Environment

In the term under review, Japan's economy continued to gradually expand despite some elements of instability such as volatile crude oil prices and uncertainty in personal consumption, as a high level of corporate earnings continued to drive an increase in plant and equipment investment. J:COM finds itself in a rapidly changing environment where broadcasting and communications have been moving toward integration at an accelerating pace, and competition between satellite and telecommunications companies is rapidly intensifying.

In this market environment, the J:COM Group is engaged in a management strategy of increasing the number of subscribing households (expanding volume) and improving the average revenue per user, or ARPU (increasing value).

The J:COM Group currently deploys approximately 1,800 sales representatives, excluding Cable West Inc., all across Japan, using a locally oriented consultative sales approach which emphasizes face-to-face meetings with customers and listening to their individual needs. The J:COM Group has also opened outbound call centers as part of efforts to strengthen sales and marketing capabilities in the areas where J:COM services are provided. Direct visits by sales representatives are extremely effective in helping customers to understand sophisticated service content and how to use their equipment, and they also play an important role in giving a face to J:COM's business, which helps to gain the trust and confidence of customers. In April 2006, the J:COM Group's cable television service (J:COM TV) introduced an HDR set-top box (\*1) that enables recording of high-definition programs to an internal hard disk drive, becoming the first cable television operator in Japan with such a service. The cable television service also expanded video-on-demand (VOD) as well as high-definition programs exclusive to cable television operators, distinguishing itself from other cable television companies with its provision of high value-added services. Furthermore, in March 2006 the J:COM Group added a mobile telecommunications service (J:COM MOBILE) to its stable of services, which already included cable television (J:COM TV), high-speed Internet access (J:COM NET), and telephony services (J:COM PHONE). With this move, J:COM went from a triple play provider to a grand slam provider offering four different services with strong synergistic effects.

As a result, the number of households subscribing to any of the three services of cable television, high-speed Internet access, and telephony provided by the consolidated J:COM Group (all

subsidiaries excluding managed system operators, which are equity method affiliates) increased by 509,400 year-on-year to reach a total of 2,512,200 households (on a total managed system operator basis, the year-on-year increase was 485,700 for a total of 2,621,700). In addition, total services provided by the consolidated J:COM Group showed a year-on-year increase of 877,600 to 4,338,000 (on a total managed system operator basis, the increase was 840,100 for a total of 4,518,600). ARPU increased 249 yen over the previous term to 7,787 yen (on a total managed system operator basis, increased 260 yen over previous term to 7,757 yen). The bundling ratio which indicates the number of services provided per household was unchanged at 1.73 from December 31, 2005. The bundling ratio excluding Cable West Inc. improved to 1.78 as of December 31, 2006 from 1.73 as of December 31, 2005.

As a result of the increase in the number of subscribing households and in ARPU, consolidated revenue for the term under review increased 21% year-on-year to 221,915 million yen, and consolidated net income was up 27% to 24,481 million yen.

J:COM considers the return of profits to its shareholders as a very important management issue. In the term under review, however, the Company decided to keep its capital surplus to maintain and strengthen its financial standing to enable business development that would maximize its corporate value for future growth. Therefore, the Company decided not to pay a dividend at this time.

The status of specific efforts in each of the services is as follows.

(\*1) A set-top box is a tuner for receiving cable television programming.



### **Cable television (J:COM TV)**

The number of cable television subscriber households in the consolidated J:COM Group increased by 424,400 year-on-year to reach 2,109,300 households (on a total managed system operator basis, the year-on-year increase was 399,600 for a total of 2,195,900 households), of which the number of subscribers to J:COM TV Digital rose by 468,100 households, to reach 1,088,900 households or 51.6% of all cable television subscribing households (on a total managed system operator basis, the year-on-year increase was 476,800 to reach 1,127,500 households or 51.3% of all cable television subscribing households).

In April 2006, the J:COM Group launched its digital video recording (DVR) service, which uses an HDR set-top box. This service is available for an additional monthly rate of 840 yen (tax included), to bring the J:COM TV Digital monthly rate to 6,069 yen (including tax and the rental fee for the set-top box). This service enables internal hard disk drive recording of terrestrial, BS, and cable television high-definition digital programming in the original high-definition quality (\*2). It can also record one program while watching another or record two programs at the same time. There is also an electronic

programming guide (\*3) to simplify timer recording and a “time shift” function (\*4) to significantly improve convenience for users. These HDR features have quickly won the service popularity among users as 118,000 applications were received from the opening of applications in March 2006 to the end of the fiscal year. Also, in May 2006, the J:COM Group completed the roll-out of InteracTV, a free of charge service that displays on a subscriber’s television screen useful lifestyle information and regional and local governmental information, and it is now available through all managed system operators (excluding Cable West Inc.). The movie channel Movie Plus HD, the third high-definition programming channel available exclusively to cable television operators, was added to the J:COM TV Digital basic package in August 2006, followed in October by the addition of KBS World, a Korean entertainment channel. Furthermore, in December 2006 the J:COM Group introduced J:COM TV Digital Compact (a pared-down version of J:COM TV Digital with a basic monthly rate of 4,389 yen, including the rental fee for the set-top box and tax), in the Kansai region, in an effort to win new subscribers for cable television services and to shift analog subscribers to digital services.

With regard to VOD service, Jupiter VOD Co., Ltd., an equity-method affiliate and a VOD content provider, has concluded agreements with seven of Hollywood’s major studios, resulting in an increase in the number of titles provided by the J:COM Group from about 4,900 at the beginning of the fiscal year to about 5,900 at the end of the fiscal year.

(\*2) *Television with exceptionally high resolution (high detail image quality), known as High-Definition television.*

(\*3) *The electronic programming guide displays programming information on the television screen to enable program searches.*

(\*4) *A function that can simultaneously record “live” TV programs and reproduce/pause programs, just like a video player.*



### ***High-speed Internet access (J:COM NET)***

The number of subscribers to the consolidated J:COM Group high-speed Internet access service increased by 244,600 households year-on-year to reach a total of 1,108,800 households (on a total managed system operator basis, the year-on-year increase was 237,300 for a total 1,149,100). In the high-speed Internet access sector, where price competition is particularly fierce, the J:COM Group is successfully expanding the customer base. The reason behind this is that the J:COM Group is employing a strategy of going beyond providing simple connection services in order to differentiate its services from competitors.

The basic service package, for example, includes a range of exciting broadband content, various security services, up to five e-mail accounts, and a generous allotment for personal Web space, while additional services include wireless LAN services, program-specific official community services using the social network service (SNS), and package discounts for bundling services.

J:COM NET Premier (30Mbps downstream) has been well-received by customers as a secure and

convenient Internet access service. For customers wanting a higher speed access service, the Company offers J:COM NET Hikari (100Mbps downstream) for multiple-dwelling units.

In addition, to promote higher Internet access speed, the J:COM Group plans to utilize DOCSIS(\*5) 3.0, a cable Internet standard that can be used on the Company's existing hybrid fiber coaxial (HFC) network, to launch J:COM NET 160Mbps Type (provisional name), an ultra-fast Internet access service with channel bonding capability (\*6) and a maximum downstream speed of 160Mbps.

(\*5) *Data Over Cable Service Interface Specification: Specifications for performance of high-speed data communications over a cable TV network*

(\*6) *A function in which multiple DOCSIS signals are combined (i.e., "bonded") multiplying the speed of conventional DOCSIS data transmission*



### **Telephony service (J:COM PHONE)**

The number of subscribers to the consolidated J:COM Group telephony service increased by 208,600 households year-on-year to reach a total of 1,119,900 households (on a total managed system operator basis, the year-on-year increase was 203,200 for a total of 1,173,600; these figures include "Cable Plus telephone" subscribers for services provided by Cable West Inc., and its consolidated subsidiaries in cooperation with KDDI).

The J:COM Group offers a high-quality primary fixed-line telephony service through a total of 24 managed system operators (as of the end of the current fiscal year). The J:COM Group offers discounts for calls between subscribers, affordable option services, and package discounts for bundling with other services. In addition, the J:COM Group has introduced an optional major discount plan for calls to or from the J:COM MOBILE communication service launched in March 2006.

Since 2005, the J:COM Group has made use of IP technology in areas where new telephony services are being introduced, to provide primary IP telephony service that achieves the same high quality as conventional fixed-line services, including telephone number portability and access to emergency services (110, 119, etc.). The J:COM Group has started introducing primary IP telephony service in other areas, which previously only had switchboard telephony service, beginning with J:COM Shonan Co., Ltd. in September 2006. By the summer of 2007, this service is scheduled to be offered by all managed system operators, and from that point forward all new subscribers will have access to primary IP telephony services.



### **Mobile telecommunications service (J:COM MOBILE)**

The J:COM Group launched a mobile telecommunications service in March 2006, in partnership with WILLCOM, Inc. The entry into mobile telecommunications is designed to improve customer satisfaction by strengthening the J:COM Group's comprehensive service supply structure, which should help to further reduce churn rates and improve ARPU.

In October 2006, the Group commenced trial services toward commercialization of Japan's first home-oriented FMC (\*7) service. This service lets households convert existing mobile telephone and PHS terminals with wireless LAN card (WiFi) as an extension of the residence's fixed telephone service.

(\*7) Fixed-mobile convergence, a fusion of fixed and mobile telephony.

### **New projects**

The J:COM Group launched the J:COM NET Heartful Pack high-speed Internet access service in August 2006 for purposes of welfare support. This service, instituted in response to Japan's Law Supporting the Independence of Disabled Persons (Law No.123 of 2005) which went into effect on April 1, 2006, is designed to support the independence and participation in society of people with disabilities. To ease their access to the Internet, the service is provided at a basic monthly fee of 2,888 yen, including tax, which is just half the cost of J:COM NET Premier (30Mbps) service.

In May 2006, the J:COM Group introduced the ElderMarketing Initiative, which is designed to provide an environment where seniors aged 50 and over can contribute to their communities through community activities, as well as a new lifestyle platform after retirement.

### **●Capital Expenditures**

Total capital expenditures, including capital lease expenditures, by the J:COM Group during the term under review were 65.9 billion yen.

Facilities-related capital investment for the fiscal year comprised primarily trunk-line extension construction, trunk-line upgrade construction to support telephony services, and construction related to head-end facilities (e.g. transmission equipment), switching equipment and host digital terminals (\*8) for the telephone business, and subscriber facilities.

Trunk line expansion during the fiscal year was 9,889 kilometers as a result of construction implemented in the areas of J:COM Kita-Kyushu Co., Ltd., as well as in the Kanto East and Sagami-hara-Yamato systems of J:COM Kanto Co., Ltd., and also of the inclusion of areas for subsidiaries newly acquired during the term. The combined length of the J:COM Group reached 48,171 kilometers as of the end of December 2006.

As a result, the total number of households capable of subscribing to cable television services offered by the J:COM Group ("homes passed"), including organic growth due to new residential construction in existing service areas and expansion into new areas due to acquisitions, was 9,206 thousand as of the end of December 2006 (a year-on-year increase of 1,910 thousand households). The number of households passed for high-speed Internet service was also 9,206 thousand (an increase of 1,918 thousand households), while the number of homes passed for telephony service reached 9,166

thousand (an increase of 2,542 thousand year-on-year).

Capital investment in head-end facilities amounted to 3.9 billion yen.

For construction associated with service subscriptions and multiple dwelling units, the J:COM Group invested 17.8 billion yen. In telephony, new services were commenced in the areas of J:COM Setamachi Co., Ltd., Cable Television Kobe Co., Ltd., Sakura Cable TV Co. Ltd. and J:COM Gunma Co., Ltd. (merged with J:COM Kanto Co., Ltd. on December 1, 2006), requiring investment in subscriber devices such as EMTA (\*9) that support VoIP (\*10) systems. The Group invested 3.5 billion yen in these subscriber devices, and 4.6 billion yen in other telephone facilities.

In addition, The Company has invested 17.4 billion yen as capital lease expenditures. 14.4 billion of the investment is for equipment such as STB that is installed at customer's premise, and 1.5 billion is for equipment and facility related to telephone subscription.

(\*8) *Host digital terminals are network line concentrators established at all managed system operators with cable TV operations, to provide telephony services.*

(\*9) *Embedded Media Terminal Adaptor is a terminal adaptor for telephony service with cable modem.*

(\*10) *Voice over Internet Protocol is a method of transmitting voice data on the Internet.*

## ● **Financing**

During the period under review, the J:COM Group signed loan agreements in March 2006 with Sumitomo Life Insurance Company for 7 billion yen, in March and May 2006 with Nippon Life Insurance Company for 5 billion yen, in April 2006 with The Daiichi Mutual Life Insurance Company for 3 billion yen. In April 2006, the J:COM Group signed syndicated loan agreements arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd., for 25 billion yen. These new loans were used to refinance the Tranche B term loans (\*11), which were repaid in full. These new loans include long-term fixed rate loans and interest rate swaps to fix rates on variable interest loans, to hedge against future rises in yen interest rates.

To raise capital for the purchase of shares in Cable West Inc., in September 2006 the J:COM Group secured a loan of 2 billion yen from Shizuoka Bank, Ltd., 20 billion yen from the Development Bank of Japan, and borrowed 14 billion yen under an existing revolving loan (\*12) facility of 30 billion yen provided in a 155 billion yen syndicated loan facility entered into in December 2005.

In September 2006, the J:COM Group signed an agreement for 30 billion yen of syndicated loans through lead arrangers Sumitomo Mitsui Banking Corporation, the Bank of Tokyo-Mitsubishi UFJ, Ltd., and Mizuho Corporate Bank, Ltd. In October, J:COM Group borrowed the entire 30 billion yen and a portion of the proceeds were used to repay the 14 billion yen revolving loans mentioned in the previous paragraph. These new loans also include long-term fixed rate loans and interest rate swaps to

fix interest rates on the variable interest loans, to hedge against future rises in yen interest rates.

(\*11) A variable interest loan with a period of seven years.

(\*12) A loan instrument that allows borrowing and repayment any number of times within a set limit.

### **●Acquisition or Disposal of Other Companies' Shares, Equity, or Share Warrants, Etc.**

For details, see below in (3) Principal Parent Companies and Subsidiaries, 3. Course of Business Consolidation.

### **●Issues for the J:COM Group**

The business environment surrounding the J:COM Group is constantly evolving due to the convergence of broadcasting and communications. In this situation, the J:COM Group has identified "Volume plus Value" as the core of its management strategy for obtaining sustainable growth, and is striving to provide exciting products and services that can increase the number of subscribing households (expanding volume) and increase ARPU (increasing value). The J:COM Group is also promoting strategic alliances with geographically adjacent cable television operators, or acquiring them outright, in order to expand its service and business areas. At the same time, the J:COM Group is streamlining the organization and reducing overlapping costs at each managed system operator to further promote the business efficiency of all of its managed system operators.

As a leading company in the broadcasting and telecommunications industries, the J:COM Group intends to use these strategies to deepen the trust and satisfaction of shareholders and other stakeholders, and to thereby further enhance the J:COM Group's corporate value.

The shareholders' further understanding and assistance are highly appreciated.

## (2) Changes in Assets and Operating Results

### ① Consolidated Basis

(Million Yen except Net Income Per Share)

	10th Term (Dec-2003)	11th Term (Dec-2004)	12th Term (Dec-2005)	13th Term (Dec-2006)
Revenue	143,159	161,346	183,144	221,915
Operating Income	13,202	22,592	24,475	31,582
Income before income tax	5,561	12,679	16,748	27,503
Net Income	5,351	10,821	19,333	24,481
Net Income Per Share (Yen)	1,214.25	2,221.47	3,178.95	3,844.83
Stockholders' Equity	96,769	138,370	251,445	277,296
Total Assets	421,877	439,291	516,457	625,948

- (Note) 1. The Company's consolidated financial statements have been prepared based on accounting principles generally accepted in the United States of America (U.S. GAAP) .
2. The 13th Term results are indicated in the aforementioned section (1) Business Progress and Results.

### ② Stand-alone Basis

(Million Yen except Net Income Per Share)

	10th Term (Dec-2003)	11th Term (Dec-2004)	12th Term (Dec-2005)	13th Term (Dec-2006)
Sales Revenue	52,965	64,060	75,002	100,288
Ordinary Profit	1,167	1,485	2,109	6,625
Net Income	1,112	(1,570)	(2,141)	6,482
Net Income Per Share (Yen)	252.27	(322.36)	(352.11)	1,018.01
Capital	63,133	78,133	114,481	115,232
Stockholders' Equity	66,446	94,876	185,332	193,155
Total Assets	229,743	155,914	320,208	374,352

- (Note) 1. At 11<sup>th</sup> Term, the net loss was mainly due to booking of an extraordinary loss from a one-time amortization of loan expenses.
2. Starting from 10<sup>th</sup> Term, "Accounting Principle on Net Income per Share" (Accounting Standard Board ASB No.2) and "Accounting Treatment Guide for Principle on Net Income per Share"(ASB No.4) are applied.

### (3) Principal Parent Company and Subsidiaries (as of December 31, 2006)

#### ① Relationship with Parent Company

LGI/Sumisho Super Media, LLC (hereinafter “Super Media”), the Company’s direct parent entity owning 62.47% voting rights, is a joint holding company established by Liberty Global, Inc. and Sumitomo Corporation. The stock holding ratios of Liberty Global, Inc. and Sumitomo Corporation in Super Media are 58.66% and 41.34%, respectively. Within Super Media’s operating committee (one member selected from each shareholder), Liberty Global, Inc. holds the deciding power for those items taken up by the committee that cannot be agreed upon by both shareholders. For this reason, as of the end of December 2006, Liberty Global, Inc. effectively controls 100% voting rights of Super Media. Consequently, the Company is an indirect consolidated subsidiary of Liberty Global, Inc.

As Sumitomo Corporation indirectly owns 25.83% of the Company’s shares via Super Media, the Company is effectively an equity method affiliate of Sumitomo Corporation.

#### ② Principal Subsidiaries and Affiliates

Name	Paid-in Capital (Yen in millions)	Voting Rights Held (%)	Primary Line of Business
<b>Principal Subsidiaries</b>			
J:COM Kansai Co., Ltd.	15,500	84.24	Cable TV broadcasting
J:COM Kanto Co., Ltd.	15,057	100.00	same as above
J:COM Sapporo Co., Ltd.	8,800	85.85 (85.85)	same as above
@ NetHome Co., Ltd.	7,800	100.00	Internet provider
J:COM Tokyo Co., Ltd.	7,524	95.73	Cable TV broadcasting
J:COM Shonan Co., Ltd.	5,772	82.57	same as above
Cable West Co., Ltd.	5,658	95.57	same as above
J:COM Chiba. Co., Ltd.	3,395	74.50	same as above
Cable Television Kobe Co., Ltd.	3,000	89.90	same as above
Cable Net Kobe Ashiya Co., Ltd.	2,900	54.05	same as above
Cable Vision 21 Inc.	2,767	97.95	same as above
Chofu Cable Inc.	2,525	92.09	same as above
J:COM Kita-Kyushu Co., Ltd.	2,447	84.29	same as above
Suita Cable Television Co., Ltd.	2,105	88.30 (88.30)	same as above
Hokusetsu Cable Net Co., Ltd.	2,000	100.00	same as above
Takatsuki Cable Network Co., Ltd.	1,828	91.28 (91.28)	same as above
J:COM Saitama Co., Ltd.	1,600	86.16	same as above
Sakura Cable TV Co. Ltd.	1,589	90.57	same as above
Higashi-Osaka Cable Television Co., Ltd.	1,560	91.89 (91.89)	same as above
Tsuchiura Cable Television Co., Ltd.	1,500	70.33	same as above

Toyonaka Ikeda Cable Net Co.,	1,500	87.37 (87.37)	same as above
J:COM Setamachi Co., Ltd.	1,000	100.00	same as above
Cable Net Shimonoseki Co., Ltd.	1,000	63.41	same as above
Kitakawachi Cable Net Co., Ltd.	500	95.57 (95.57)	same as above
J-COM Technologies Co., Ltd.	490	100.00	Installation/construction work associated with cable TV broadcasting and telecommunication businesses
Kansai Multimedia Services Co., Ltd.	480	76.50	Internet provider
J-COM Finance Co., Ltd.	3	100.00	Financial service
<b>Principal Affiliates</b>			
Japan Digital Serve Corp. *	2,250	21.32	Digital broadcast signal transmission business
Fukuoka Cable Network Co., Ltd. *	2,000	45.00	Cable TV broadcasting
Jupiter VOD Co., Ltd. *	1,140	50.00	VOD service
Green City Cable Television Co., Ltd. *	1,000	20.00	Cable TV broadcasting
KADOKAWA-J:COM Media Co., Ltd. *	100	50.00	Advertising business via free information magazines

(Note) 1. The above voting right ratio is round off at above shown unit.

2. Entities marked with asterisks (\*) are affiliated companies accounted for by the equity-method.

3. The figure in parentheses in the "Voting Rights Held" column indicates the indirect ownership portion.

### ③ Course of Business Consolidation

- (a) In January 2006, the Company acquired additional shares of Kansai Multimedia Services Co., Ltd., converting it from an equity method affiliate to a consolidated subsidiary.
- (b) In January 2006, the Company acquired the shares of Rokko Island Cable Vision Co., Ltd., making it a consolidated subsidiary. In May 2006, Rokko Island Cable Vision was merged with the consolidated subsidiary Cable Net Kobe Ashiya Co., Ltd.
- (c) In April 2006, the Company acquired the shares of Sakura Cable Television Co., Ltd., making it a consolidated subsidiary.
- (d) In June 2006, the consolidated subsidiary Urawa Cable Television Network Co., Ltd., merged with the consolidated subsidiary Media Saitama Co., Ltd., to create J:COM Saitama Co. Ltd.
- (e) In August 2006, the Company acquired additional shares of Cable Net Shimonoseki Co., Ltd., converting it from an equity method affiliate to a consolidated subsidiary.
- (f) In September 2006, the Company acquired shares of Cable West Inc., which is engaged in cable television management operations (\*) and telephony services in the Kansai region, making it and its subsidiaries, including Suita Cable Television Co., Ltd., Toyonaka Ikeda Cable Net Co., Ltd., Takatsuki Cable Network Co., Ltd., Higashi Osaka Cable Television Co., Ltd., and Kita Kawachi Cable Net Co., Ltd., a total of six companies, into consolidated subsidiaries.

(g) In December 2006, the consolidated subsidiary J:COM Kanto Co., Ltd., merged with the consolidated subsidiary J:COM Gunma, Co., Ltd.

*Note : Business related to operation, control, and management of five managed system operators engaged in cable television operations around the Kansai area.*

#### ④ Results of Business Consolidation

There were 27 consolidated subsidiaries and five affiliates accounted for by the equity method at the end of the term under review. On a consolidated basis, revenues for the term increased by 38,771 million yen, or 21%, to 221,915 million yen from the previous year result of 183,144 million yen, income before income taxes increased by 10,755 million yen, or 64%, to 27,503 million yen from the previous year result of 16,748 million yen, and net income increased by 5,148 million yen, or 27%, to 24,481 million yen from the previous year result of 19,333 million yen.

#### (4) J:COM Group's Main Business (as of December 31, 2006)

Cable television broadcasting service, Telecommunication service

#### (5) J:COM Group's Main Office (as of December 31, 2006)

The Company's Head Office: Tokyo

J:COM Kanto: Tokyo

J:COM Tokyo: Tokyo

J:COM Kansai: Osaka

#### (6) Employees (as of December 31, 2006)

##### ① Consolidated Basis

Number of Permanent Employees	Number of Contract Employees	Number of Temporary Employees	Total
3,465	2,472	2,716	8,653

(Note) 1. Figures are the sum of the number of employees of the consolidated subsidiaries under U.S. GAAP.

2. The number of employees during the consolidated fiscal period under review increased by 1,869 people. This can be primarily attributed to the addition of consolidated entities, to the establishment of outbound call centers in Fukuoka and Sapporo cities, and to the employment of new school graduates.

##### ② Stand-alone Basis

Number of Permanent Employees	Number of Contract Employees	Number of Temporary Employees	Total	Average Age	Average Length of Service
744	601	818	2,163	35.3	5.5years

- (Note) 1. Figures indicate number of employees including those seconded from outside the Company and excluding those seconded to affiliated companies.
2. The number of employees during the consolidated fiscal period under review increased by 621 people. This can be primarily attributed to the employment of new school graduates and to the establishment of outbound call centers in Sapporo and Fukuoka cities.
3. Average age and average length of service are calculated based on the data as of month-end December 2006 on permanent employees including those seconded to affiliated companies but excluding secondees from outside the Company.

## (7) Principal Lenders (as of December 31, 2006)

Lenders	Loan Balance (Yen in Millions)
Development Bank of Japan	65,409
The Bank of Tokyo Mitsubishi UFJ, Ltd. (*2)	29,745
Sumitomo Mitsui Banking Corporation	21,245
Mizuho Corporate Bank, Ltd.	20,645
The Sumitomo Trust and Banking co., Ltd.	10,349
Sumitomo Life Insurance Company	7,000
Nippon Life Insurance Company	5,000
The Norinchukin Bank	4,449
The Shizuoka Bank, Ltd.	4,000
The Dai-ichi Mutual Life Insurance Company	3,000
TAIYO LIFE INSURANCE COMPANY	2,500
The Chiba Bank, Ltd.	2,000
The Yamanashi Chuo Bank, Ltd.	2,000
FUKOKU MUTUAL LIFE INSURANCE COMPANY	2,000

- (Note) 1. The above list includes loans based on the syndicated loan contracts listed below.
- |                       |                    |
|-----------------------|--------------------|
| December 2005 tranche | 76,500 million yen |
| April 2006 tranche    | 25,000 million yen |
| October 2006 tranche  | 30,000 million yen |
2. The above list includes lenders with outstanding loans valued at 2,000 million yen or more.
3. The above list shows the lenders and loan balance on a consolidated basis for the Company.

## 2. Current State of the Company

### (1) Shares (as of December 31, 2006)

① Number of Shares issued: 6,382,611.74 shares (ordinary shares)

② Number of Shares issued during this term: 18,771 shares (ordinary shares)

Note: The number of shares increased by 18,771 shares in the period between January 1 and December 31, 2006 as a result of the execution of stock acquisition rights (stock options).

③Number of Shareholders 14,549 persons

④Major Shareholders

(Shareholders holding 10% or more of total shares issued [excluding treasury stock])

Name	Beneficiary interest to the Company		Shares held By the Company	
	No. of shares	(%)	No. of shares	(%)
LGI/Sumisho Super Media, LLC.	3,987,238.00	62.47	nil	nil

*Note: The status of major shareholders is based on the list of shareholders as of December 31, 2006.*

## (2) Stock acquisition rights (Stock Options)

Status of stock acquisition rights as of the last day of the current fiscal year (December 31, 2006)

① Stock subscription rights (Stock subscription rights determined at the Board of Directors Meeting held on August 23, 2000 and the Extraordinary General Meeting of Shareholders held on August 23, 2000)

Targeted shares 2,088 shares  
Exercise period September 11, 2000 to August 23, 2010

② Stock subscription rights (Stock subscription rights determined at the Board of Directors Meeting held on April 27, 2001 and the Extraordinary General Meeting of Shareholders held on May 1, 2001)

Targeted shares 71,969 shares  
Exercise period September 12, 2001 to August 23, 2010

Of the above stock subscription rights, total held by Company directors and auditors

Classification	Number of targeted shares	Number of holders
Director (excluding part time directors )	3,228	3
Part Time Director	1,800	2
Statutory Auditor	1,188	1
Total	6,216	6

③ Stock acquisition rights(First round of stock acquisition rights determined at the Board of Directors Meeting held on June 18, 2002 and the Extraordinary General Meeting of Shareholders held on July 8, 2002)

Number of stock acquisition rights 4,237

Type and number of shares targeted for stock acquisition rights

Ordinary shares 25,422 shares (6 shares per stock acquisition rights)

Exercise period September 12, 2002 to August 23, 2012

Of the above stock acquisition rights, total held by Company directors and auditors

Classification	Number of stock acquisition rights	Number of holders
Director (excluding part time directors )	1,980	1
Part Time Director	—	—
Statutory Auditor	—	—
Total	1,980	1

- ④ Stock acquisition rights (Second round of stock acquisition rights determined at the Board of Directors Meeting held on September 18, 2003 and the Extraordinary General Meeting of Shareholders held on October 3, 2003)

Number of stock acquisition rights 5,828

Type and number of shares targeted for share warrants

Ordinary shares 34,968 shares (6 shares per stock acquisition rights)

Exercise period December 12, 2003 to August 23, 2012

Of the abovestock acquisition rights, total held by Company directors and auditors

Classification	Number of stock acquisition rights	Number of holders
Director (excluding part time directors )	2,142	2
Part Time Director	—	—
Statutory Auditor	—	—
Total	2,142	2

- ⑤ Stock acquisition rights (Third round of stock acquisition rights, determined at the Board of Directors Meetings held on June 24, 2004 and July 9, 2004 and the Extraordinary General Meeting of Shareholders held on July 9, 2004)

Number of stock acquisition rights 3,540

Type and number of shares targeted for stock acquisition rights

Ordinary shares 21,240 shares (6 shares per stock acquisition rights)

Exercise period September 12, 2004 to August 23, 2012

- ⑥ Stock acquisition rights (2006 Stock acquisition rights as Stock-Compensation-Type Stock Options determined at the Ordinary General Meeting of Shareholders held on March 28, 2006 and

the Board of Directors Meeting held on April 24, 2006)

Number of stock acquisition rights 254

Type and number of shares targeted for stock acquisition rights

Ordinary shares 254 shares (1 shares per stock acquisition rights)

Exercise period April 26, 2006 to March 31, 2026

Of the above stock acquisition rights, total held by Company directors and auditors

Classification	Number of stock acquisition rights	Number of holders
Director (excluding part time directors )	209	6
Part Time Director	—	—
Statutory Auditor	26	1
Total	235	7

### (3) Officers

#### ① Directors and Statutory Auditors (as of December 31, 2006)

Title	Name	Position in the Company and major occupation
Representative Director & President	Tomoyuki Moriizumi	Chief Executive Officer
Representative Director & Executive Vice President	Mineo Fukuda	Chief Operating Officer
Director	Michael Losier	SVP, Marketing
Director	Shunzo Yamaguchi	SVP, Engineering Division
Director	Toru Kato	SVP, Service Strategy Division
Director (part-time)	Shingo Yoshii	Member of the Board; Managing Executive Officer, Media, Electronics & Network Business Unit SUMITOMO CORPORATION
Director (part-time)	Seiichi Morimoto	Assistant General Manager, Media Division SUMITOMO CORPORATION
Director (part-time)	Daisuke Mikogami	General Manager, Cable TV Dept. SUMITOMO CORPORATION
Director (part-time)	Miranda Curtis	President, Liberty Global Japan LIBERTY GLOBAL, INC.
Director (part-time)	Graham Hollis	Executive Vice President and COO, Liberty Global Japan LIBERTY GLOBAL, INC.
Director (part-time)	Yasushige Nishimura	Executive Adviser, Japan, Liberty Global Japan LIBERTY GLOBAL, INC. Representative Director, MEDIATTI COMMUNICATIONS
Director (part-time)	Gregory Armstrong	WorldSpace Inc. Co-Chief Operating Officer
Statutory Auditor	Tsuguhito Aoki	
Statutory Auditor (part-time)	Masatoshi Hayashi	Corporate Officer; General Manager, Planning & Administration Dept., Media, Electronics & Network Business Unit SUMITOMO CORPORATION

Statutory Auditor (part-time)	John Sandoval	Vice President, Finance, Liberty Global Japan LIBERTY GLOBAL, INC.
Statutory Auditor (part-time)	Michael Erickson	Senior Vice President, Operations and Development Liberty Global Japan LIBERTY GLOBAL, INC.

(Note)1. Changes to Directors and Statutory Auditors during the fiscal period under review

At the conclusion of the 12<sup>th</sup> Term Ordinary General Meeting of Shareholders held on March 28, 2006, Director & Executive Vice President Yukihiko Yoshida and Director Shigeru Ohashi retired at the completion of their terms of office.

At the 12<sup>th</sup> Term Ordinary General Meeting of Shareholders held on March 28, 2006, Tomoyuki Moriizumi, Gregory Armstrong, Akihiko Haruyama, Michael Losier, Shunzo Yamaguchi, Toru Kato, Shingo Yoshii, Seiichi Morimoto, Miranda Curtis, Graham Hollis, and Yasushige Nishimura were re-appointed as Directors, and Mineo Fukuda and Daisuke Mikogami were newly appointed as Directors.

At the 12<sup>th</sup> Term Ordinary General Meeting of Shareholders held on March 28, 2006, Michael Erickson was appointed as Statutory Auditor.

On June 30, 2006, Representative Director & Executive Vice President Gregory Armstrong resigned his post as Representative Director & Executive Vice President, and on the same day, Director & Executive Vice President Mineo Fukuda was appointed as Representative Director & Executive Vice President.

On October 15, 2006, Director Akihiko Haruyama retired upon resignation.

2. Directors Shingo Yoshii, Seiichi Morimoto, Daisuke Mikogami Miranda Curtis and Graham Hollis are outside directors as defined by Article 2 Paragraph 15 of the Corporate Law.
3. Statutory Auditors Masatoshi Hayashi and Michael Erickson are outside auditors as defined by Article 2 Paragraph 16 of the Corporate Law.

## ② Compensation Paid to Directors and Statutory Auditors and the Sum of Other Monetary Benefits Offered in Consideration of the Execution of Duty

Items	Director		Statutory Auditor		Total	
	Number of Persons Paid	Amount Paid (Yen in Millions)	Number of Persons Paid	Amount Paid (Yen in Millions)	Number of Persons Paid	Amount Paid (Yen in Millions)
Compensation paid based on the Articles of Incorporation or upon resolution at the General Shareholders Meeting	8	462	2	31	10	493
Retirement benefits paid upon resolution at the General Shareholders Meeting	2	25	—	—	2	25
Total		487		31		518

(Note)1. The maximum allowed compensation (annual) for Directors was set at 800 million yen at the Extraordinary General Meeting of Shareholders held on September 29, 2000. For Statutory Auditors, the maximum allowed compensation (annual) was set at 100 million yen at the Extraordinary General Meeting of Shareholders held on September 29, 2000.

2. At the Ordinary General Meeting of Shareholders held on March 28, 2006, a decision was taken to award retirement benefits for directors.
3. There is no payment of compensation, etc., for outside directors or outside statutory auditors.
4. As of December 31, 2006, there were 12 directors and 4 statutory auditors
5. In addition to the above, 278 share warrants (amount to be paid on exercise of each share

warrant: 1 yen) were awarded to seven directors as 2006 Stock Acquisition Rights as Stock-Compensation-Type Stock Options determined at the Ordinary General Meeting of Shareholders of March 28, 2006 and the Board of Directors Meeting of April 24, 2006

6. In addition to the above, 26 share warrants (amount to be paid on exercise of each share warrant: 1 yen) were awarded to one auditor as 2006 Stock Acquisition Rights as Stock-Compensation-Type Stock Options determined at the Ordinary General Meeting of Shareholders of March 28, 2006.

#### **(4) Status of Independent Auditor**

- ① Name of auditing firm KPMG AZSA & Co.
- ② Amount of compensation to be paid to independent auditors
- Amount of compensation related to service as defined in Article 2 Paragraph 1 of the Certified Public Accountant Law (Law No.103 of 1948): 307 million yen
- Amount of compensation for services other than as defined in Article 2 Paragraph 1 of the Certified Public Accountant Law: -- million yen
- ③ Total amount of cash or other financial assets to be paid to independent auditors by the Company and subsidiaries: 411 million yen

*(Note)1. In the audit contract between the Company and the external auditors, a distinction is not made between the compensation for auditing based on the Corporate Law and that for auditing based on the Securities Exchange Law, nor is such distinction effectively possible. The Company is also subjected to U.S. SOX Act auditing, the above number includes all of such activities..*

*2. This amount includes 25 million yen in surcharges on the Company related to fiscal 2005.*

JUPITER TELECOMMUNICATIONS CO., LTD., AND ITS SUBSIDIARIES  
**CONSOLIDATED BALANCE SHEETS**  
**(U.S. GAAP)**

*As of December 31, 2006*

(Yen in Millions)

<b>(Assets)</b>		<b>(Liabilities)</b>	
Current assets:		Current liabilities:	
Cash and cash equivalents	20,486	Short-term loans	2,000
Accounts receivable	14,245	Long-term debt—current portion	16,158
Allowance for doubtful accounts	(378)	Capital lease obligations—current portion	
Deferred tax asset-current	11,877	Related parties	10,893
Prepaid expenses and other current assets	4,669	Other	1,988
Total current assets	50,899	Accounts payable	26,166
Investments:		Income tax payable	3,411
Investments in affiliates	2,469	Deferred revenue-current portion	4,862
Investments in other securities, at cost	801	Accrued expenses and other liabilities	5,424
Total investments	3,270	Total current liabilities	70,902
Property and equipment, at cost:		Long-term debt, less current portion	173,455
Land	2,845	Capital lease obligations, less current portion:	
Distribution system and equipment	480,363	Related parties	30,595
Support equipment and buildings	32,554	Other	6,986
	515,762	Deferred revenue	55,044
Less accumulated depreciation	(180,594)	Redeemable preferred stock of consolidated subsidiary	500
Total property and equipment	335,168	Other liabilities	7,120
Other assets:		Total liabilities	344,602
Goodwill, net	202,267	Minority interest	4,050
Intangible asset-Customer relationships, net	21,181		
Deferred tax asset-non current	5,629	<b>(Shareholders' equity)</b>	
Other	7,534	Ordinary shares no par value	115,232
Total other assets	236,611	Authorized 15,000,000 shares; issued and outstanding 6,382,611.74 shares	
Total assets	625,948	Additional paid in capital	196,335
		Accumulated deficit	(34,071)
		Accumulated other comprehensive (loss)	(200)
		Treasury stock	(0)
		Total shareholders' equity	277,296
		Total liabilities and shareholders' equity	625,948

*The "Notes to Annual Consolidated Statutory Report" are an integral part of the above financial report.*

JUPITER TELECOMMUNICATIONS CO., LTD., AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**

(U.S. GAAP)

*Year ended December 31, 2006*

(Yen in Millions, except per Share Data)

Revenue:	
Subscription fees	196,515
Other	25,400
	221,915
Operating costs and expenses	
Operating and programming costs (Inclusive of stock compensation expense of 95 million yen)	92,297
Selling, general and administrative expenses (Inclusive of stock compensation expense of 237 million yen)	43,992
Depreciation and amortization	54,044
	190,333
Operating income	31,582
Other income (expenses):	
Interest expense, net:	
Related parties	(1,109)
Other	(2,413)
Other income, net	253
Income before income taxes and other items	28,313
Equity in earnings of affiliates (Inclusive of stock compensation expense of 2 million yen)	371
Minority interest in net income of consolidated subsidiaries	(1,181)
Income before income taxes	27,503
Income tax expense	(3,022)
Net income	24,481
Per share data	
Net income per share—basic	¥3,844.83
Net income per share—diluted	¥3,838.33
Weighted average number of ordinary shares outstanding—basic	6,367,220 shares
Weighted average number of ordinary shares outstanding—diluted	6,378,001 shares

*The “Notes to Annual Consolidated Statutory Report” are an integral part of the above financial report.*

JUPITER TELECOMMUNICATIONS CO., LTD., AND ITS SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(U.S. GAAP)

*Year ended December 31, 2006*

(YEN IN MILLIONS)

	Ordinary Shares	Additional paid in capital	Comprehensive Income/(Loss)	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at January 1, 2006	114,481	195,219		(58,353)	98	251,445
Net income:	—	—	24,481	24,481	—	24,481
Undistributed loss from newly acquired companies	—	—	—	(199)	—	(199)
Other comprehensive income:						
Changes in the fair value of derivative financial instruments	—	—	(298)	—	(298)	(298)
Comprehensive income	—	—	24,183	—	—	—
Stock option exercise	751	782		—	—	1,533
Stock compensation (includes paid not issued options)	—	334		—	—	334
Treasury stock	(0)	—		—	—	(0)
Balance at December 31, 2006	115,232	196,335		(34,071)	(200)	277,296

*The "Notes to Annual Consolidated Statutory Report" are an integral part of the above financial report.*

## Notes to Annual Consolidated Statutory Report

### Significant Accounting Basis for the Consolidated Statutory Report

#### 1. Scope of consolidation

- (1) Number of consolidated subsidiaries: 27
- (2) The names of the Company's consolidated subsidiaries  
Principal Subsidiaries  
J:COM Tokyo Co., Ltd. J:COM Kanto Co., Ltd. J:COM Shonan Co., Ltd.  
J:COM Kansai Co., Ltd. Cable West Inc.
- (3) Change of consolidated Subsidiaries in 2006  
Changes of consolidated subsidiaries by stock acquisition are as follows;  
(Companies which were equity method affiliates in previous year)  
Kansai Multimedia Services Co., Ltd. and Cable Net Shimonoseki Co., Ltd.  
(Newly acquired companies)  
Rokko Island Cable Vision Co., Ltd., Sakura Cable TV Co., Ltd., Cable West Inc.  
As a result, the subsidiaries of Cable West Inc., which are Suita Cable Television Co., Ltd.,  
Takatsuki Cable Network Co., Ltd., Higashi-Osaka Cable Television Co., Ltd., Toyonaka Ikeda  
Cable Net Co., Ltd. and Kita Kawachi Cable Net Co., Ltd. also became consolidated  
subsidiaries.  
The following companies are eliminated from consolidated subsidiaries due to merger;  
Media Saitama Co., Ltd. (merged with Urawa Cable Television Co.,Ltd. and create  
J:COM Saitama Co.,Ltd.)  
Rokko Island Cable Vision Co., Ltd. (merged with Cable Net Kobe Ashiya Co.,Ltd.)  
J:COM Gunma Co.,Ltd. (merged with J:COM Kanto Co.,Ltd.)

#### 2. Scope of application of equity method

- (1) Number of equity method affiliates: 5
- (2) The names of equity method affiliates  
Principal Affiliates  
Fukuoka Cable Network Co., Ltd. Japan Digital Serve Corp. Jupiter VOD Co., Ltd.
- (3) Change of equity method affiliates in 2006  
The Company consolidated equity method affiliates of Kansai Multimedia Services Co., Ltd. and  
Cable Net Shimonoseki Co., Ltd. because of additional share purchase

#### 3. Fiscal year-end of consolidated subsidiaries

The fiscal year-end for all consolidated subsidiaries is the same as the consolidated closing date.

#### 4. Significant accounting policies

- (1) Accounting standards used to prepare the consolidated Statutory Report  
The Company prepares its annual consolidated Statutory Report using the terminology, forms and methods of preparation required under accounting principles generally accepted in the United States of America, as stipulated by the Article 148, Section 1, of the Corporate Calculation Rule. However, certain descriptions and notes required under the aforementioned accounting principles as per the subject enforcement regulations of Article 148, Section 1, are partially omitted.

- (2) Securities valuation standards and valuation methods  
To value its securities, the Company applies Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Investments in affiliates (excluding loans)	Equity method
Investments in other securities	Cost method

When investments in affiliates and non-marketable securities decline in value, the Company

considers the possibility of recognizing impairment losses provided such declines are deemed to be other than temporary.

(3) Valuation standards and valuation methods for derivatives

The Company accounts for derivatives based on SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities—Amendment to SFAS No. 133” (Amended SFAS No. 133). Amended SFAS No. 133 requires all derivatives to be recognized on the balance sheet at fair value as assets or liabilities.

- Derivative instrument designated and effectively active as a fair value hedge:  
Changes in the fair value of derivative instruments and of the assets or liabilities being hedged are recognized as periodic income/loss.
- Derivative instrument designated as cash flow hedge—regarding the portion effectively active as a hedge:  
Until income/losses on the assets or liabilities being hedged are recognized on the income statement, they must be recognized as other comprehensive income/loss.
- Derivative instrument designated as cash flow hedge—regarding the portion that is not effectively active as a hedge:  
Recognized as periodic income/loss.
- Derivative instruments not designated as hedge:  
Changes in fair value recognized as periodic income/loss.

(4) Accounting for long-lived assets

For long-term assets other than goodwill, the Company evaluates for impairment losses on the guidance in SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(5) Depreciation method for tangible fixed assets

The straight-line method is applied.

Useful lives of major assets:

Distribution system and equipment	10–15 years
Buildings	15–40 years
Support equipment	5–15 years

(Assets acquired through capital leases are depreciated over periods ranging from 2 to 21 years.)

(6) Valuation standards and valuation methods for goodwill

The Company recognizes as goodwill the excess purchase price over the fair value of the identifiable net assets acquired in a business combination.

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” the Company conducts an impairment test at least annually, or more frequently if an indicator of impairment has occurred.

(7) Amortization of software

Internal use software is amortized on the straight-line method over the estimated available period (less than five years).

(8) Accounting methods of asset retirement obligations

The company applies FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations (FIN 47)”, which is the guidance in Statement of Financial Accounting Standards (SFAS) No. 143. This interpretation requires us to recognize a liability for asset retirement obligations in the period in which it is incurred if sufficient information is available to make a reasonable estimate of fair value.

(9) Standards for recognition of important allowances

#### Allowance for doubtful accounts

The Company calculates allowance for doubtful accounts on the basis of our best estimate of probable future losses on accounts receivable, and considers historical experience, and other known factors.

#### (10) Lease transactions

The Company accounts for leases in accordance with SFAS No. 13, "Accounting for Leases."

#### (11) Amortization of customer relationships

Customer relationships are originally recorded at fair value in connection with business combinations and amortized over their respective estimated useful lives (not to exceed 10 years).

#### (12) Income Taxes

The Company and its subsidiaries account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the statutory report carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### (13) Revenue Recognition

The Company and its subsidiaries recognize cable television, high-speed Internet access, telephony and programming revenues when such services are provided to subscribers. Revenues derived from other sources are recognized when services are provided, events occur or products are delivered. Initial subscriber installation revenues are recognized in the period in which the related services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that the subscribers are expected to remain connected to the cable television system. Historically, installation revenues have been less than related direct selling costs, therefore such revenues have been recognized as installations are completed.

The Company and its subsidiaries provide poor reception rebroadcasting services to noncable television viewers suffering from poor reception of television waves caused by artificial obstacles. The Company and its subsidiaries enter into agreements with parties that have built obstacles causing poor reception for construction and maintenance of cable facilities to provide such services to the affected viewers at no cost to them during the agreement period. Under these agreements, the Company and its subsidiaries receive up-front, lump-sum compensation payments for construction and maintenance. Revenues from these agreements have been deferred and are being recognized in income on a straight-line basis over the agreement periods which are generally 20 years. Such revenues are included in revenue - other in the accompanying consolidated statements of income.

#### (14) Consumption tax treatment

The "tax exclusion method" is applied.

### **5. Change of Accounting methods (by adoption of new standard)**

#### Stock compensation

The FASB issued SFAS No. 123 (Revised 2004) (SFAS No. 123R) in December 2004. SFAS No. 123R is a revision of SFAS No. 123 "Accounting for Stock-Based Compensation". SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. On January 1, 2006 the company applied the modified prospective method to adopt SFAS No. 123R.

## 6. Notes to the Consolidated Balance Sheet

1. Material assets provided as collateral:

Distribution system and equipment	¥81,333 million
Support equipment and buildings	¥1,495 million
Land	¥321 million
Liabilities related to collaterals above	¥21,109 million
2. Debt guarantee balance ¥8,848 million  
(Debt guarantee balances to other than consolidated subsidiaries for their borrowing from banks.)
3. Accumulated other comprehensive income (loss)  
Accumulated other comprehensive income (loss) represents the accumulated unrealized gains (losses) pertaining to derivative financial instruments.

## 7. Notes to the Consolidated Statements of Shareholders' Equity

1. Number of Shares issued  
Ordinary Shares 6,382,611.74 Shares
2. Treasury stocks  
Ordinary Shares 0.74 Shares
3. Stock acquisition rights  
Number of targeted shares (exercisable)  
Stock acquisition rights : Ordinary Shares Outstanding 73,656 Shares  
(Determined at the Extraordinary General Meeting of Shareholders held on July 8th, 2002, October 3rd, 2003 and July 9th, 2004.)  
Stock subscription rights : Ordinary Shares Outstanding 74,057 Shares  
(Determined at the Extraordinary General Meeting of Shareholders held on August 23rd, 2000 and May 1st, 2001)  
Stock acquisition rights as Stock-Compensation-Type : Ordinary Share Outstanding 32 Shares  
(Determined at the Ordinary General Meeting of Shareholders held on March 28th, 2006)  
Total of Ordinary Shares Outstanding 147,745 Shares

## 8. Information of the Per Share Data

Shareholders' Equity Per Share ¥43,445.59

## 9. Note to deferred taxes

The effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 31, 2006 are as follows.

	(YEN IN MILLIONS)
Deferred tax assets:	
Operating loss carry-forwards	7,307
Deferred revenue	18,689
Lease obligation	20,185
Retirement and other allowances	678
Investment in affiliates	805
Accrued expenses and other	5,146
Total gross deferred tax assets	52,810
Less: valuation allowance	(4,720)
Deferred tax assets	48,090
Deferred tax liabilities:	
Property and equipment	21,682
Intangible assets - principally customer relationships	8,498
Other	5,008
Total gross deferred tax liabilities	35,188
Net deferred tax assets	12,902

## **10. Significant Subsequent Events**

There were no significant events subsequent to the end of 2006 financial year.



**JUPITER TELECOMMUNICATIONS CO., LTD.(Parent Only)**

**STATEMENT OF INCOME (Japanese GAAP)**

*(From January 1, 2006, to December 31, 2006)*

(Yen in Millions)

<b>(ORDINARY PROFIT/LOSS)</b>		
<i>Operating profit</i>		
Sales		100,288
Cost of sales		85,300
Gross income		14,988
Selling, general and administrative expenses		10,662
Operating income		4,326
<i>Non-operating profit</i>		
Non-operating profit		
Interest income	2,699	
Dividends	1,366	
Guarantee fee	117	
Exchange gain	3	
Other non-operating income	309	4,494
Non-operating expenses		
Interest expense	1,635	
Long-Term prepaid guarantees amortization	167	
Stock issue costs amortization	251	
Other non-operating expenses	142	2,195
Ordinary income		6,625
<b>(EXTRAORDINARY PROFIT/LOSS)</b>		
Extraordinary loss		
Loss on one-time amortization of loan expense	111	111
Net income before taxes		6,514
Income taxes-current	463	
Income taxes-deferred	(431)	32
Net income		6,482

**JUPITER TELECOMMUNICATIONS CO., LTD**  
**(Parent Only-Japanese GAAP)**  
**STATEMENT OF CHANGES IN NET ASSETS**

For the 12 month ended December 31, 2006  
(Yen in millions)

	Stockholders' equity								
	Common stock	Advance on subscription	Capital Surplus			Retained Earnings		Treasury stock	Total Stockholders' equity
			Capital reserve	Additional paid-in capital	Total capital surplus	Retained earnings	Total retained earnings		
						Retained earnings carried forward			
Balance at December 31, 2005	114,481	0	89,017	—	89,017	(18,166)	(18,166)	(0)	185,332
Movement for this period									
Covering of deficit due to decrease of capital reserve			(60,396)	42,230	(18,166)	18,166	18,166		—
Net income						6,482	6,482		6,482
Treasury stock								(0)	(0)
Stock option exercise	751	32	750		750				1,533
Reclass from Advance on subscription to Common stock or Capital reserve	0	(0)	0						—
Movement by recognition of hedge gain (loss)									
Total movement	751	32	(59,646)	42,230	(17,416)	24,648	24,648	(0)	8,015
Balance at December 31, 2006	115,232	32	29,371	42,230	71,601	6,482	6,482	(0)	193,347

	Revaluation surplus		Total Net assets
	Deferred hedge loss	Total revaluation surplus	
Balance at December 31, 2005	—	—	185,332
Movement for this period			
Covering of deficit due to decrease of capital reserve			—
Net income			6,482
Treasury stock			(0)
Stock option exercise			1,533
Reclass from Advance on subscription to Common stock or Capital reserve			—
Movement by recognition of hedge loss	(192)	(192)	(192)
Total movement	(192)	(192)	7,823
Balance at December 31, 2006	(192)	(192)	193,155

## Notes to Annual Statutory Report (Parent Only - Japanese GAAP)

### 1. Significant Accounting Policies

#### 1. Securities Valuation Standard and Method

Investments to subsidiaries and affiliates

Acquisition cost by the moving average method

Other investments

Non-marketable Securities

Acquisition cost by the moving average method

#### 2. Inventory Valuation

Merchandise

Lower of cost or market by the moving average method

#### 3. Depreciation Method of Tangible Fixed Assets

The straight-line method is applied.

Buildings	15–50 years
-----------	-------------

Other structures	10–60 years
------------------	-------------

Machinery and equipment	4–15 years
-------------------------	------------

#### 4. Amortization Method of Intangible Fixed Assets

The straight-line method is applied.

With regard to software for in-house use, straight-line method over estimated in-house useful life (5 years) is applied.

#### 5. Long term Prepaid Expenses

Amortized using straight-line method.

#### 6. Deferred Charges

Stock Issue Charges

Amortized equally in three years pursuant to the provisions of the Commercial Code.

#### 7. Allowance and Reserve

##### (1) Allowance for Bad debts

Calculated based on historical bad debt ratio approach for general receivables and on debtor's financial evaluation approach for particular doubtfuls.

##### (2) Reserve for Retiring Benefits for directors and auditors

The Company had recorded necessary payment as of term-end based on the internal regulations, however it was resolved at the board of directors meeting held on Feb. 27th, 2006 that the Company would discontinue the retiring benefits for directors and auditors effective from the resolution of general shareholders meeting held in March 2006. Therefore, the Company reversed all reserve for retiring benefits for directors and auditors.

#### 8. Important hedge accounting method

##### (1) Hedge accounting method

Deferred hedge method is applied. When allotment is applicable for foreign exchange reserve, such method is used.

##### (2) Measure and object for hedge

Hedge measure: Foreign exchange reserve and interest swap

Object for hedge: Account receivables and payables in foreign currency, and interest of debt loans with variable interest rate

##### (3) Hedge policy

The Company tries to minimize the risks of foreign exchange fluctuations of account receivables and payables in foreign currency as well as the risks of fluctuations of interest rate for debt loans based on the Company's internal regulations.

##### (4) Valuation of hedge

With regard to foreign exchange reserve, valuation of hedge is omitted because there is no difference of material conditions regarding its transaction and object for hedge and its cash flow is fixed. With regard to interest swap, valuation is done by testing whether the interest risk as object for hedge is diminished.

## 9. Lease transaction

Except for finance lease where ownership is expected to transfer to the lessee, the accounting method for lease transactions in conformance with accounting policy of general lease transaction is applied.

## 10. Consumption Taxes

Consumption taxes are excluded from income and expenses in Statement of Income and net of payables / receivables of Consumption Taxes are recorded in Balance Sheet.

## 11. Change of accounting methods

### (1) Accounting standards for impairment of long-lived assets

Effective from the 12 month ended December 31, 2006, the Company adopted “Accounting Standards for Impairment of Long-lived Assets”, “Statement of Opinion on Establishment of Accounting Standards for Impairment of Long-lived Assets” (issued by Business Accounting Council on August 9, 2002) and “Application Guidance on Accounting Standards for Impairment of Long-lived Assets” (Accounting Standard Application Guidance No.6, issued on October 31, 2003). The adoption of these standards had no impact on net income for the 12 month ended December 31, 2006.

### (2) Accounting standards for presentation of net assets in the balance sheet

Effective from the 12 month ended December 31, 2006, the Company adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standard No.5, issued on December 9, 2005) and “Application Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standard Application Guidance No.8, issued on December 9, 2005). The total amount if calculated as existing Stockholders’ equity is ¥193,347 million. The adoption of these standards had no impact on net income for the 12 month ended December 31, 2006.

### (3) Effective from the 12 month ended December 31, 2006, the Company adopted “Tentative Solution on Accounting for Deferred Assets” (the Accounting Standards Board of Japan PITF No. 19, issued on August 11, 2006).

## 12. Additional information

### Operational cost of customer centers

The Company previously recognized the operational cost of customer centers in Selling, general & administrative expenses, however effective from the 12 month ended December 31, 2006, the Company recognized it in Cost of sales. The reason of this change is primarily an increased materiality of this cost due to integration of customer centers from regional management to direct control of the Company and the installment of two additional outbound centers. This change results in ¥10,969 million decrease of gross income, however no impact on operating income, ordinary income and net income before taxes.

## 13. Other

Starting this fiscal year, we are preparing calculation documents in accordance with “Corporate Calculation Rule” (Ordinance #13 of Ministry of Justice dated February 7, 2006).

## 2. Notes to the Balance Sheet

1. Amounts presented in millions of yen with fractions rounded.

2. Accumulated depreciation of tangible fixed assets ¥794 million

3. Debt guarantee balance

Guaranteed Parties	(Yen in millions)	Details of guaranteed debt
Fukuoka Cable Network Co.,Ltd	8,534	Borrowing from Banks
J:COM Shonan Co.,Ltd	2,882	
J:COM Kansai Co.,Ltd	2,556	
J:COM Saitama Co.,Ltd	2,349	
J:COM Kita Kyushu Co.,Ltd	2,300	
J:COM Sapporo Co.,Ltd	1,875	
Tsuchiura Cable Television Co.,Ltd	1,763	
J:COM Chiba Co.,Ltd	1,228	
Cable Net Shimonoseki Co.,Ltd	896	
J:COM Setamachi Co.,Ltd	748	
Cable Television Kobe Co.,Ltd	720	

J:COM Tokyo Co.,Ltd	504	
Cable Net Kobe Ashiya Co.,Ltd	422	
Green City Cable TV Corporation	290	
Bay Communications Inc.	23	
Grand Total	27,090	

4. Monetary claims and obligations to subsidiaries and affiliates	
Short-term monetary claims	¥13,098 million
Long-term monetary claims	¥119,500 million
Short-term monetary obligations	¥1,478 million

### 3. Notes to Statement of Income

1. Amounts presented in millions of yen with fractions rounded.	
2. Transactions with subsidiaries and affiliates	
Sale transactions	¥82,722 million
Non-operational transactions	¥4,140 million

### 4. Notes to Statement of Changes in Net Assets

1. Amounts presented in millions of yen with fractions rounded.	
2. Total outstanding shares	6,382,611.74 ordinary shares
3. Treasury stock	0.74 ordinary shares

### 5. Notes to Statement of Deferred tax Assets and Liabilities

The effects of temporary difference and carry forwards that give rise to deferred tax assets and liabilities

Long-term prepaid expenses	¥1,597 million
Other	¥744 million
<u>Total Deferred Tax Assets</u>	<u>¥2,341 million</u>
Exchange reservation gain	¥5 million
<u>Total Deferred Tax Liabilities</u>	<u>¥5 million</u>
Net Deferred Tax Assets	¥2,336 million
Less: valuation allowance	(¥1,910 million)
Net deferred Tax Assets	¥426 million

### 6. Note regarding the fixed assets used under lease agreement

Financial lease transactions other than the leases in which the ownership of leased objects are transferred to the borrowing party.

#### 1. Borrower

(1) Amount equivalent to the acquisition amount of leased objects, amount equivalent to cumulative depreciation amount, and amount equivalent to remaining balance at the end of term. (Excluding subleases to affiliates)

	(Yen in million)		
	Amount equivalent to acquisition amount	Amount equivalent to cumulative depreciation amount	Amount equivalent to remaining balance at the end of term
Equipment & Tools	1,692	491	1,201
Software	277	118	159
Total	1,969	609	1,360

(2) Amount equivalent to the remaining balance of unexpired lease (including subleases to affiliates)

Within 1 year	¥5,582	million
Over 1 year	¥21,496	million
<hr/>		
Total	¥27,078	million

(3) Amount equivalent to lease payment, amount equivalent to depreciation amount, and amount equivalent to interest payment (excluding subleases to affiliates)

Lease payment	¥450	million
Amount equivalent to depreciation amount	¥415	million
Amount equivalent to interest payment	¥43	million

(4) Calculation method of amounts equivalent to depreciation amount and interest payment

1) Calculation of depreciation amount

Straight-line method with lease term as useful life and no residual value is applied.

2) Calculation of interest payment

The difference between the total lease charge and acquisition equivalent amount is assumed the interest portion and distributed each year through the interest method.

2. Lender (sublease to affiliates)

(1) Remaining balance of unexpired lease

Within in a year	¥5,147	million
Over a year	¥20,462	million
<hr/>		
Total	¥25,609	million

## 7. Note regarding information per share

Net asset amount per share 30,262.71 yen

Net earning per share 1,018.01 yen

(Note) Basis for calculating net earning per share.

Net earning	¥6,482 million
Net earning not attributable to common shareholders	-
Net earning attributable to common shareholders	¥6,482 million
Average number of common shares during the fiscal year	6,367,220 shares

## 8. Significant Subsequent Events

There were no significant events subsequent to the end of 2006 financial year.

**Independent Auditors' Report**

February 15, 2007

The Board of Directors  
Jupiter Telecommunications Co., Ltd.

KPMG AZSA & Co.

Toshiharu Kawai  
Designated and Engagement Partner  
Certified Public Accountant

Hiroo Iwaide  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the consolidated statutory report, that is the consolidated balance sheet, the consolidated statement of income, the consolidated statement of shareholders' equity and footnotes of Jupiter Telecommunications Co., Ltd. for the year from January 1, 2006 to December 31, 2006 in accordance with Article 444(4) of the Corporate Law. The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statutory report referred to above present fairly, in all material respects, the financial position and the results of operations of Jupiter Telecommunications Co., Ltd. and its subsidiaries for the period, in which the consolidated statutory report were prepared, in conformity with accounting principles generally accepted in the United States of America (outlined in Item 4 (1) of "Notes to consolidated statutory report").

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

[English Translation of the Auditors' Report Originally Issued in the Japanese Language]

**Independent Auditors' Report**

February 15, 2007

The Board of Directors  
Jupiter Telecommunications Co., Ltd.

KPMG AZSA & Co.

Toshiharu Kawai  
Designated and Engagement Partner  
Certified Public Accountant

Hiroo Iwaide  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the statutory report, that is the balance sheet, the statement of income, the statement of changes in net assets, footnotes, and its supporting schedules of Jupiter Telecommunications Co., Ltd. for the 13th business year from January 1, 2006 to December 31, 2006 in accordance with Article 436(2)① of the Corporate Law. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report and supporting schedules are free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statutory report and supporting schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Jupiter Telecommunications Co., Ltd. for the period, in which the statutory report and supporting schedules were prepared, in conformity with accounting principles generally accepted in Japan.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

# **Audit Report**

(Translation from Japanese)

The Board of Auditors has drawn up this Audit Report, as the unanimously agreed opinion of all the Auditors, after deliberations among the Auditors based on the respective audit reports from each Auditor on the directors performing their duties for the thirteenth business year from January 1, 2006 to December 31, 2006, and report as follows.

## 1. Method and Content of Auditing by Auditors and Board of Auditors

The Board of Auditors decided auditing policies and plans, etc. for the business year, received reports, from each Auditor of respective execution and results of audit, and from the directors, etc. and the Accounting Auditor of their execution of respective duties, and requested their explanation thereon as deemed necessary.

In accordance with Code of Auditors Auditing Standards, auditing policies and plans, etc. decided by the Board of Auditors, each Auditor endeavoured to collect information and develop our auditing environment by keeping contacts and communications with the directors and employees, etc. of internal auditing and other departments, attended the meetings of the Board of Directors and other important meetings, received reports and explanation, as deemed necessary, from the directors and employees, etc. of their performance of respective duties, made perusal of the important documents, including those for internal approval, and investigated the business operation and the state of the assets of the Company. Also each Auditor checked and verified the contents of the resolution of the Board of Directors and the status of the systems developed pursuant to the resolution, regarding the development of the system to secure directors' performance of duties complying with laws and regulation and the articles of incorporation, and other systems required to secure proper business operation as provided in Implementation Regulations of Corporate Law, Article 100, Paragraphs 1 to 3 ("internal control system"). As to the subsidiaries, each Auditor kept communications and exchanged opinions with their directors and auditors, etc., and received their business reports as necessary. Based on the measures and procedures mentioned above, each Auditor examined the Company's Business Report and Attached Details for the business year.

Also, each Auditor checked and verified whether the Accounting Auditor keeping independent position and executing proper auditing, and received from the Accounting Auditor the reports of the status of their execution of duties and sought for their explanation thereon as necessary. In addition, each Auditor received the report from the Accounting Auditor that "systems to secure proper performance of duties" (provided in Article 159, all paragraphs in Company Accounting Regulation)

were developed and sought for their explanation thereon as necessary. Based on the measures and procedures mentioned above, each Auditor examined the Company's Statutory Report (Balance Sheet, Statement of Income, Statement of Changes in Net Assets and Individual Notes Sheet) and Supporting Schedules, and Consolidated Statutory Report (Consolidated Balance Sheet, Consolidated Statement of Income, Consolidated Statements of Shareholders Equity and Consolidated Individual Notes Sheet).

## 2. Audit Results

### (1) Audit Results of Business Report, etc.

- (i) Business Report and Attached Details are deemed to present fairly the situation of the Company complying with laws and regulations and the Articles of Incorporation.
- (ii) There are no illegal or unlawful actions nor material facts in violation or breach of law or regulations or the Articles of Incorporation, found in any director performing respective duties.
- (iii) The contents of the resolution of the Board of Directors regarding the Company's internal control system are deemed adequate. And, there is nothing to be pointed out in the directors' performance of duties regarding the relevant internal control system.

### (2) Audit Results of Statutory Report and Supporting Schedules

The auditing method and audit results of KPMG AZSA & Co., the Accounting Auditor of the Company, are deemed adequate.

### (3) Audit Results of Consolidated Statutory Report.

The auditing method and audit results of KPMG AZSA & Co., the Accounting Auditor of the Company, are deemed adequate.

February 21, 2007

The Board of Auditors, Jupiter Telecommunications Co., Ltd.

Statutory Auditor (full-time)	Tsuguhito Aoki
Statutory Auditor (outside auditor)	Michael Erickson
Statutory Auditor (outside auditor)	Masatoshi Hayashi
Statutory Auditor	John Sandoval